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Service Innovation Capabilities towards Business Performances in the Hotel Sector of Zimbabwe

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Abstract

The relationship between service innovation and business performance in the hotel sector in Zimbabwe has become one of the most important aspects in Service Industry. The dearth of knowledge in service innovation has led to the current study. The study explored service innovation capabilities towards financial performance, customer retention and reputation of hotels. Three hypotheses are posited and in order to empirically test them, a sample data set of 150 was collected from the African Sun Hotel group (ASHG) and Rainbow Tourism group (RTG) of hotels in Zimbabwe. The findings indicated that service innovation positively influences business performances in hotels. The study contributes to practice by helping hotel managers to devise appropriate service innovation strategies and make informed decisions and it gives fresh contemporary evidence supported by reliable information that contributes to the body of knowledge and gives a leeway into further research.

Keywords: Services sector, innovation, strategy, hotels, Zimbabwe

Introduction

The service industry has become an important aspect in the economies of countries in Southern African Development Community (SADC) (Christie & Crompton, 2001). It has become the important key drivers of the global economic growth in hospitality/hotel service business in shaping firms (Cooper & Burgess, 2000; Maswera et al., 2008). In Zimbabwe service-business innovation in hotels, plays an important role in the economy as it makes the strongest contribution to the rise and integration of the service sector through economic theories of the industry (Maswera et al., 2008). Lovelock &Gummeson (2004) denote that services were seen as a special case that required new managerial approach whereas it is the importance of service innovation that currently constitutes the highest share of the gross domestic product (GDP) and occupy the centre stage of the economic growth in emerging economies (Karambakuwa et al., 2011). Due to the fast potential growth in hotel service business, the hospitality/ hotel services have to make a paradigm shift on their service offering. There is need for the hospitality/ hotel sector to shift from producing services that merely are marketing oriented to the services that are innovation oriented rather than products with less innovation (Vargo & Lusch, 2008).

Service innovation in the hospitality/ hotel industry has become the key driver in profit making, basis for customer satisfaction, financial performances, customer retention and hotel reputation both at local and international level (Vargo & Lusch, 2008). But the global services is composed not only by the competitive market but by the rapid change in destination marketing strategies, thus amid global competition, service marketing organisations are looking at innovative ways to put their market at the best position (Zott & Amit, 2009). Shifting segments and the response to changes in preferences has led the hotel service sector to refocus on the changes in innovation and in which the business operates and also the political, social, economic environment.

There is need for service business players in the hospitality/hotel industry to appreciate innovation not only in the service commodities and its processes but to realise the new changes in service and business performance. Service business innovation (SBI) has many dimensions and many stages that include changes in business preferences and market/business strategies that can improve the current business system and at the same time recreate new ways of doing business (Chen, 2009). While Zimbabwean hotels; the African Sun Hotel group (ASHG) and Rainbow Tourism group (RTG) and their affiliates based in the tourist resorts and cities pursue SBI, current literature on SBI stems mainly from the manufacturing sector and as such cannot help us understand the service business innovation orientation (SBIO) processes in service industry because of the service characteristics that are unique and complex.

Therefore, deducing from the identified gap the purpose of this study is to investigate the impact of service innovation on financial performance, customer retention, and the reputation of a hotel. Thus, in order to achieve the purpose of the study, the division of this paper is as follows: The next section discusses literature related to the four factors examined in the present study. Subsequently, the discourse will focus on the conceptual framework and the formulation of hypotheses. The research methodology section will follow thereafter, which will be succeeded by the results as well as the discussion of the results. The final sections of the paper will consist of conclusions, limitations and implications for future research, respectively.

Empirical review

This section contextualises the current study through a description and synthesis of key studies linked to the study variables (empirical investigation). Additionally, in order to present a well-rounded picture in relation to the title of the study, the researchers reviewed literature on service innovation, financial performance, customer retention and reputation (hotel).

Service innovation

Service innovation can be related to changes in various characteristics of the service product itself (Ryu & Lee, 2012). In addition, Randhawa and Scerri (2015) conceptualize service innovation as an “elevated service offering” that is made up of “new client interface/customer encounter; new service delivery system; new organizational architecture or marketing proposition; and/or improvements in productivity and performance through human resource management”, further highlighting its multidimensional aspects. Vos (2010) is of the view that a service innovation is a new service or such a renewal of an existing service which is put into practice and which provides benefit to the organization that has developed it; the benefit usually derives from the added value that the renewal provides to the customers. Moreover, Kjos (2013) points out that service innovation is a multi-stage process whereby organizations transform ideas into new or improved services, in order to advance, compete and differentiate themselves successfully in their marketplace.

Financial performance

According to Mans-Kemp (2014) financial performance can be defined as the results of the operations and policies of a firm in monetary terms. Financial performance is one of the common measures of how well a firm uses its resources from its main operations to generate revenues (Tudose, 2012). In addition, Al-Dalayeen (2017) is of the view that financial performance is concerned about the evaluation and interpretation of a firm's financial positions as well as operations and involves a comparison and interpretation of accounting data. Furthermore, Onyango (2015) indicate financial performance as the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time.

Customer retention

Hosseinzadeh and Azizpour (2013) believe that retaining customers of an organization is a much more an efficient strategy than to try attracting new customers to substitute for the lost customers. Customer retention is the goal of preventing customers from switching to the competitor (Munyiri, 2014). In addition, Alshurideh (2016) defines customer retention in the following way: "all marketing plans and actions that seek to retain both existing and new customers by establishing, maintaining, and maximizing mutual long-term benefits that strengthen and extend the joint relationship between two parties". Rootman and Cupp (2016) points out that customer retention is the degree to which a client displays repeat purchasing behaviour towards a firm, possesses a positive attitudinal disposition towards the firm, and considers using only this firm when a need for this product/service. Basnayake, Arunachalam and Hassan (2015) points out that customer retention is vital in the marketing process and it is through customer retention that loyal customers would engage in encouraging word of mouth behavioural responses.

Reputation (hotel)

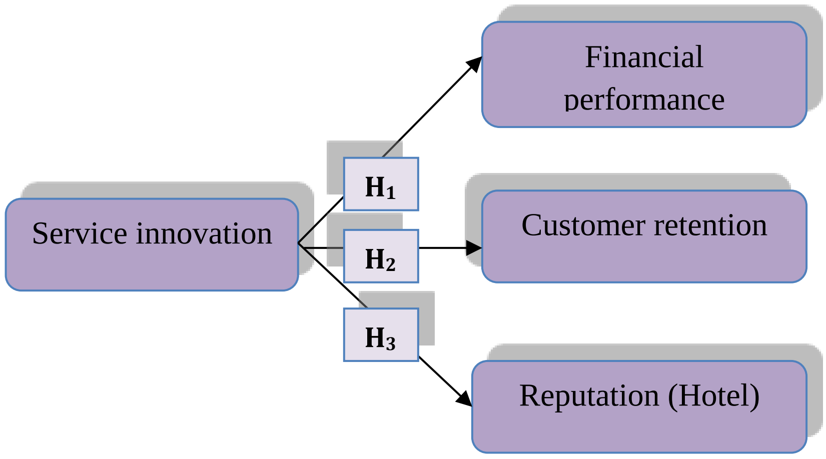
Reputation can be viewed as the important aspect in an organisational set up and organisations are able to maintain a more sustainable competitive advantage and endure a long-lasting relationship with many stakeholder groups (Boyd *et. al.,* 2010). Benefits of a good reputation are seen as including higher customer retention rates and associated increased sales and products selling prices (Shapiro, 1993). Corporate reputation research literature centre on the definition of the reputation construct, the way in which reputation is operationalised (Eberl & Schwaiger, 2005).

An organization's reputation is a reflection of how it is regarded by its multiple stakeholders and its reputational stance can help the organization obtain trust and credibility in society, which will assist in the achievement of its objectives and goals (Feldman, Bahamonde & Velasquez-Bellido, 2014). According to Wilkins, Merrilees and Herington (2009) reputation is hard to examine, because of the services given by hotels comes under untouchable. Therefore, in order to resolve effectively, effective systems should be implemented by hotel operators in order to continuously observe the customer's desires and perception of service standard (Liat, Mansori & Huei, 2014). Resultantly, additional favourable perception of hotel's reputation will be made when customers are highly satisfied (Jalbani, & Soomro, 2017).

Conceptual model and hypothesis development

The foregoing discussions of literature lead culminated in the formulation of the conceptual framework illustrated in Figure 1. The model consists of four constructs, whereby, service innovation (SI) is the predictor variable, while financial performance (FP), customer retention (CR) and reputation (hotel) (RH) is the outcome/dependent variables.

Figure 1: Proposed conceptual model



Service innovation and financial performance

Yang, Yang & Chen (2014) investigated the effects of service innovation on financial performance of small audit firms in Taiwan. The empirical results of their study indicated that non-conventional firm have the highest degree of service innovation and they financially outperform general firms. In industrial markets, in which many suppliers find it increasingly difficult to differentiate their products effectively from competitors' offerings, service innovations provide an important source of competitive advantage that ultimately might lead to improved financial performance (Eggert & Thiesbrummel & Deutsche, 2014; Aas & Pedersen, 2011; Cainelli, Evangelista & Savona, 2004).

Based on the foregoing discourse, it is logical for one to presuppose that a positive linkage between service innovation and financial performance in the context under consideration in this study. As such, the following hypothesis is proposed:

H_1: Service innovation has a positive influence on financial performance

Service innovation and customer retention

Dao & Yang (2014) conducted a study which investigated the effects of service innovation on customer retention and the results reviewed that there is a positive relationship between service innovation and customer retention. Precisely the findings also indicated that two components of service innovation namely interactive and supportive are the key determinants of customer retention (Dao & Yang, 2014).

Moreover, Anderson (1994) points out that when the hotels provides innovative services that meet the customer needs, customers are more likely to purchase services more frequently and this increase customer retention. Based on the foregoing discussion, it appears that there is a positive association between service innovation and customer retention. This being the case, the following hypothesis is put forward:

H_2: Service innovation has positive influence on customer retention

Service innovation and reputation (hotel)

It is imperative to elucidate the nexus between service innovation and reputation of a hotel. Foroudi, Jin, Gupta, Melewar, and Foroudi (2016) investigated the influence of innovation

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capability on reputation and found out that innovation is an important tool for achieving firm reputation. Furthermore, Chun (2006) eluded that innovativeness appears as one of the key criteria for assessing corporate reputation. Fombrun and Shanley (1990) mention that having a favourable reputation may lead to favourable consequences, such as the charging of premium prices to the customer, the attraction of better applicants and more investors. As such, the following hypothesis is proposed:

H_3: Service innovation has a positive influence on reputation (hotel)

RESEARCH METHODOLOGY

Sample and data collection

The data for this research was collected from city centre and resort based hotels in Zimbabwe. The research sampling frame was the Rainbow tourism group of hotels, the African Sun Group of Hotels as well as affiliates lodges ranging from 3*** star to 5***** star. The list of hotels was obtained from the Zimbabwe Tourism Authority (ZTA) in Zimbabwe. Due to the nature of this research, the targeted research participants were the hotel managers.

In particular, officials who occupied top managerial positions, hotel employees and Ministry of tourism and hospitality industry employees. This was done to ensure the competence of the respondents in evaluating the hotels' service innovation, financial performance, and customer retention and hotel reputation. Of the total of 170 questionnaires distributed, 150 usable questionnaires were retrieved for the final data analysis, representing a response rate of 88.2 percent.

Table 1: Sample demographic characteristics

Gender	**Frequency**	**Percentage**
Male	94	63%
Female	56	37%
Total	**150**	**100%**
Position	**Frequency**	**Percentage**
Front Line Staff	51	34%
Supervisor	33	22%
Unit Director	39	26%
General Manager	27	18%
Total	**150**	**100%**
Organisation	**Frequency**	**Percentage**
ZTA	10	7%
Ministry of Tourism	5	3%
ASHG	51	34%
RTG	84	56%
Total	**150**	**100%**
Department	**Frequency**	**Percentage**
Food and Beverage	**55**	37%
Housekeeping	**18**	12%
Personnel	**5**	3%
IT	**9**	6%
Restaurant Services	**47**	31%
Marketing	**5**	3%
Support Services	**11**	8%
Total	**150**	**100%**

Sample description

Descriptive statistics in Table 1 show the gender, position, organisation, marital status, and department of respondents that participated in the study. As indicated in Table 1 below, this study shows that females participated more in the study and constitute 56% of the total target population. Male consumers who participated in the study were 94% of the total population. In terms of the positions, most of the respondents (34%) indicated that there are front line staff members; this was then followed by those who indicated that there are unit directors in their respective hotels and affiliates. In addition, most the respondents 56% indicated that they belonged to the Rainbow tourism group of hotels (RTG); this was then followed by those who indicated that they belong to the African Sun Group of Hotels (ASHG). Moreover, in terms of the departments which the respondents are working in, 55 % of the respondents indicated that they work within the food and beverage department, the least respondents where 5% from the marketing and personnel department respectively.

Scale accuracy analysis

Reliability and validity of the measurement instruments proves to be good so the study proceeded to test the proposed hypotheses. In total, there are three hypotheses that are tested. The same results of the path coefficients are tabulated in Table 2 depicting the Item to Total correlations, Average variance extracted (AVE), Composite Reliability (CR) and Factor Loadings.

Table 2: Measurement Accuracy Assessment and Descriptive Statistics

Research constructs		Descriptive statistics*		Cronbach's test		C.R.	AVE	Measurement Item Loadings
		Mean	SD	Item-total	α Value			
Service Innovation (SI)	SI1	3.59	0.528	0.561	0.918	0.930	0.529	0.538
	SI2	3.96	0.532	0.588				0.698
	SI3	3.98	0.558	0.588				0.706
	SI4	3.91	0.590	0.632				0.739
	SI5	3.96	0.595	0.641				0.754
	SI6	3.97	0.573	0.639				0.722
	SI7	4.02	0.547	0.622				0.694
	SI8	4.03	0.536	0.552				0.776
	SI9	4.05	0.509	0.559				0.816
	SI10	4.09	0.489	0.602				0.721
	SI11	4.10	0.511	0.600				0.775
	SI12	4.07	0.489	0.634				0.756
Financial Performance (FP)	FP1	4.06	0.505	0.555	0.860	0.904	0.703	0.817
	FP2	4.00	0.512	0.656				0.858
	FP3	4.03	0.524	0.594				0.857
	FP4	4.10	0.466	0.541				0.821
Customer Retention (CR)	CR1	4.07	0.495	0.597	0.853	0.911	0.773	0.841
	CR2	4.06	0.514	0.671				0.923
	CR3	4.02	0.523	0.542				0.872
Reputation (Hotel) (RH)	RH1	4.06	0.502	0.561	0.829	0.887	0.662	0.774
	RH2	4.07	0.474	0.613				0.787
	RH3	4.04	0.486	0.576				0.873
	RH4	4.10	0.466	0.540				0.818

Service Innovation = (SI); Financial Performance = (FP); Customer Retention= (CR); Reputation (Hotel) = (RH). CR: composite reliability; AVE: average variance extracted, SD: standard deviation.

As clarified above CR4 was deleted due to the fact that the factor loadings were below 0.5 which is the recommended threshold according to Anderson and Gerbin (1988). Table 2, above present the research constructs, Cronbach alpha test, Composite reliability (CR), Average variance extracted (AVE) and item loadings. The lowest item to total loading is RH4 with 0.540 and the highest is SI5 with 0.641.

On Factor loadings, the lowest is SI1 with 0.531 and the highest is 0.923 which is CR2. This shows that the measurement instruments are valid. The lowest Cronbach alpha is 0.829 and the highest is 0.918 which shows that the constructs are very reliable and are explaining more that 50% of the variance.

Table 3: Inter-Construct Correlation Matrix

Variables	SI	FP	CR	RH
SI	**1.000**			
FP	0.506	**1.000**		
CR	0.393	0.449	**1.000**	
RH	0.471	0.595	0.542	**1.000**

Service Innovation = (SI); Financial Performance = (FP); Customer Retention= (CR); Reputation (Hotel) = (RH)

Inter-Construct Correlation Matrix

Nunnally and Bernstein, (1994) proves that one of the methods used to check on the discriminant validity of the research constructs was the evaluation of whether the correlations among latent constructs were less than 0.60. A correlation value of less than 0.60 is recommended in the empirical literature to confirm the existence of discriminant validity (Nunnally & Bernstein 1994). As can be seen all the correlations are below the standard level of 0.60 which indicate the existence of discriminant validity.

The diagonal values in bold stands for the Shared Variances (SV) for the respective research constructs. The Shared Variance is expected to be greater than the correlation coefficients of the corresponding research constructs. Table 3, above shows that the results further validate the existence of discriminant validity.

Path Model Results and Factor Loadings

Following on page 8 is Figure 1, showing the path modelling results and as well as the item loadings for the research constructs.

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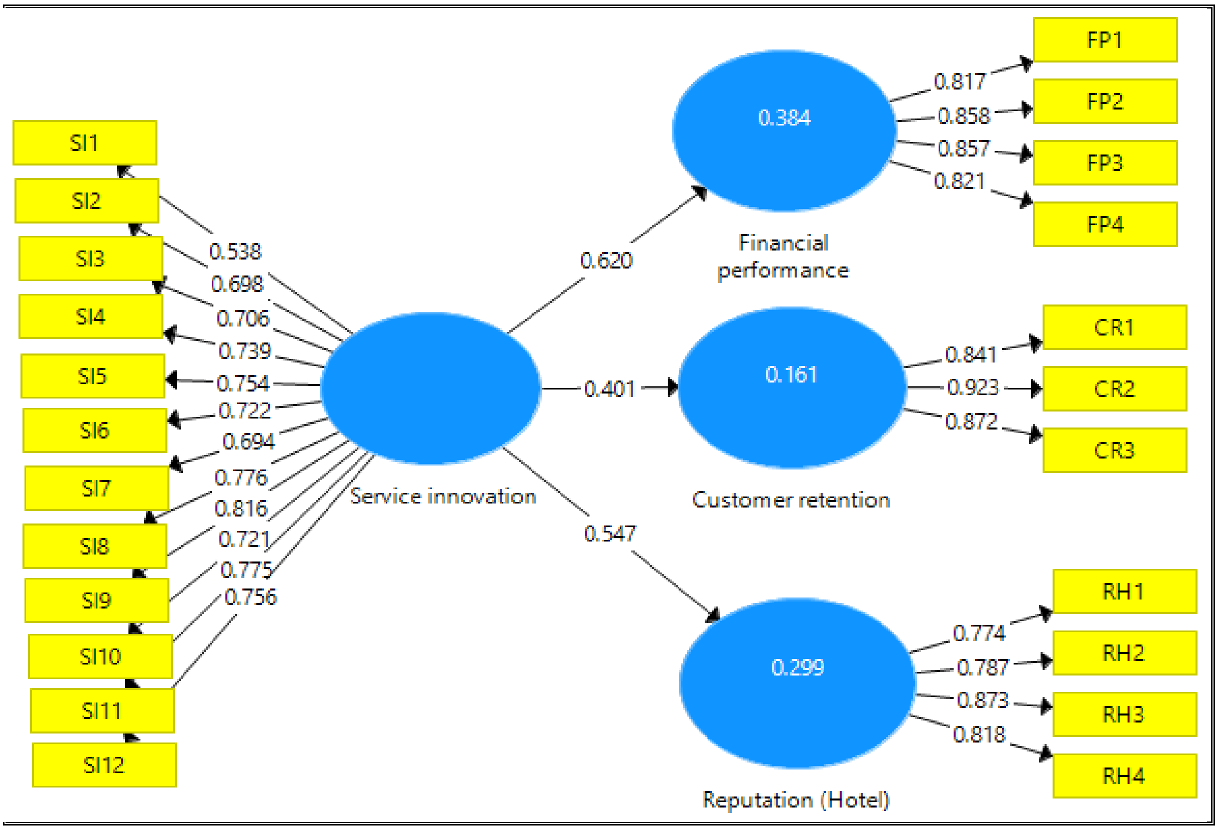
Figure 2: Path Modelling and Factor Loading Results



Service Innovation = (SI); Financial Performance = (FP); Customer Retention= (CR); Reputation (Hotel) = (RH)

Table 4: Results of structural equation model analysis

Path	Hypothesis	Path coefficients (β)	T-Statistics	Decision on Hypotheses
Service Innovation (SI) → Financial Performance (FP)	**H1**	**0.620[a]**	**4.842**	**Accept/ Significant**
Service Innovation (SI) → Customer Retention(CR)	**H2**	**0.401[a]**	**12.145**	**Accept/ Significant**
Service Innovation (SI) → Reputation (Hotel) (RH)	**H3**	**0.547[a]**	**9.212**	**Accept/ Significant**

Service Innovation = (SI); Financial Performance = (FP); Customer Retention= (CR); Reputation (Hotel) = (RH)

Smart PLS is a general technique for estimating paths involving latent constructs indirectly observed by multiple indicators (Bontis, 1998). However, Smart PLS software does not provide goodness-of-fit measures for the full path model as like LISREL and AMOS, but it provides only R^2 values for the dependent variables. Conversely, a method to calculate a global goodness-of-fit (GoF) measure was proposed by Amato, Vinzi and Tenenhaus (2004), and this method takes into account both the quality of the measurement model and the structural model (Tenenhaus, Vinzi, Chatelin & Lauro, 2005; Streukens, 2008). The global goodness-of-fit (GoF) statistic was calculated using the following equation:

$$GoF = \sqrt{\overline{AVE} * R^2}$$

Where AVE represent the average of all AVE values for the research variables while R^2 represents the average of all R^2 values in the full path model. The calculated global goodness of fit (GoF) is 0.78, which exceeds the recommended threshold of GoF > 0.36 suggested by Wetzels, Odekerken-Schröder & Van Oppen (2009). Thus, the study confirms the existence of the data's goodness of fit to the research model.

Research Findings and Discussions

Hypothesis One (H1): Service Innovation (SI) → Financial Performance (FP)

It can be observed in Figure 2 and Table 4 that H1 Service Innovation (SI) → Financial Performance (FP) is supported by the hypothesis result (0.620) and is significant at t-statistics 4.842. The strength of the relationship is indicated by a path coefficient of 0.620. This implies that service innovation directly influence financial performance in a positive significant way. The better the brand trust the higher the level of brand attachment.

Hypothesis Two (H2): Service Innovation (SI) → Customer Retention (CR)

Figure 2 and Table 4 above, indicate that H2, Service Innovation (SI) → Customer Retention (CR) is supported by the hypothesis finding (0.401) and is significant at t-statistics 12.145. Again, the strength of the association is indicated by a path coefficient of 0.401. This implies that service innovation (SI) is positively related to customer retention (CR) in a significant way. Thus, higher levels of service innovation will lead to higher levels of customer retention.

Hypothesis Three (H3): Service Innovation (SI) → Reputation (Hotel) (RH)

It is depicted in Figure 2 and Table 4 that H3, Service Innovation (SI) → Reputation (Hotel) (RH) is supported significantly. The t-statistics is 9.212. The strength of the relationship is indicated by the path coefficient of 0.547. This finding suggests that service innovation has a direct strong positive effect on hotel reputation. Therefore, the more effective the service innovation, the more reputation of a hotel.

Academic and practical implications for the study

The present study offers implications for academicians. An investigation of the research findings indicate that service Innovation and financial Performance has the strongest influence on each other as indicated by a path coefficient of (0.620) when compared to other research constructs. Thus, for academicians in the field of service innovation, this finding enhances their understanding of the relationship between as this is a useful contribution to existing literature on these two variables.

On the practitioners' side, this study also submits that hotel managers can benefit from the implications of these findings. For instance, given the robust relationship between service Innovation and customer retention (0.401), hotel managers in Zimbabwe are ought to pay attention in developing new or improving their services to retain their customers. Precisely, they can focus on changing the way customers are being served as well as to create greater value for them in order to deliver more revenue for the hotel.

Limitations and Future Research Suggestions

Despite the usefulness of this article, the research has its limitations. Firstly, the data are gathered from the hotel perspective thus (managerial and employee perspective), in the RTG and the ASHG and from employees of the tourism statutory body, ZTA and the Ministry of

Tourism and Hospitality. The results would have been more informative if data from all hotels in Zimbabwe were collected and compared. Secondly, the current study was limited to Hotels in Zimbabwe. Subsequent research should contemplate replicating this study in other developing countries for result comparisons. Furthermore, more valuable and insightful findings could have been found by conducting a longitudinal study of the influence of service innovation and its outcome in all hospitality/hotel sectors. Replication of this kind of study at regional and at international level is recommended. Moreover, while the research sampling frame is confined to the hotel sector in Zimbabwe, minor variations in definition exist across at regional and international level. The variations in definition may pose some challenges as it makes it difficult to generalise the findings in this area specifically to the service innovation since it is a complex area that deals with intangibility and the unique aspect of the commodities.

Conclusion

The study substantiates that service innovation capabilities towards financial performance, customer retention and reputation of hotels in Zimbabwe have a positive influence. Service innovation was found to have a high positive influence towards financial performance. Practically, this study makes an imperative contribution to the service industry, specifically the Tourism and Hospitality Sector. Theoretically, this study contributes to the existing body of knowledge in the service innovation literature in the hotels.

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